

PERS 457 PROGRAM UPDATE Spring/Summer 1998

MORE MONEY IN YOUR POCKET — NOW AND LATER

The Internal Revenue Service announced that, effective January 1, 1998, the annual limit on deferrals under Internal Revenue Code section 457 is increased from \$7,500 to \$8,000.

Participants making more than \$32,000 in gross salary per year can now contribute up to \$307.69 bi-weekly or \$666.66 per month, to their accounts, provided the participant's deferrals do not exceed the salary-based annual limitations for the year. Increasing your annual contribution to the new maximum allowed may create tax savings now, while building your CalPERS 457 Program balance for the future — to supplement your retirement.

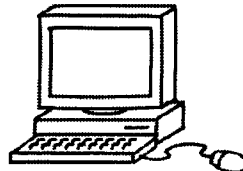
Consider how increasing your CalPERS 457 Program deferral rate may put more money in your pocket now and at retirement. For more information, please call the PERS 457 Customer Service Line at 800/260-0659.



WITHDRAWING BALANCE OF ACCOUNT (DE MINIMIS)

Effective January 1998, participants — who have not contributed to their CalPERS 457 Program accounts for at least two years and who are still

employed by their employer — may withdraw their account balances if the balances are equal to or less than \$5,000. Withdrawals are subject to applicable taxes. (state and federal income taxes) Participants who use the de minimis option will be excluded from re-enrolling in the CalPERS 457 Program for six months and will not be eligible to use the de minimis option again.



TAKING CONTROL WITH CALPERS 457 ACCOUNTS

Core Investment Funds

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| • Stable Fixed Income | • Asset Allocation Funds |
| • Bond Fund | Conservative |
| • Money Market Fund | Moderate |
| • S & P 500 Index Fund | Aggressive |
| • Active Large Cap Fund | • FDIC Insured Money Market Fund |
| • Active Small Cap Fund | • FDIC Insured CDs for 1, 2, or 3 years |
| • International Equity Fund | |

Also, available to those participants whose employer has signed up for this option is the Self-Managed Account (SMA). The purpose of the SMA is to give individuals accustomed to managing and making investment decisions the maximum amount of investment flexibility by offering over 2,000 mutual funds in more than 200 fund families.

To help participants better understand their investment options, we begin with this issue a series of articles in which each fund will be described beginning with the first three fund options. The balance of the investment options will be described in the upcoming issues of the newsletter.

The Stable Fixed Income, Bond Fund, Money Market — are the options for the most conservative investor.

Stable Fixed Income Fund — Manager: PERS — Sub-Advisor: State Street — the objective of the fund is stable income and preservation of principal. This is a moderately conservative fund which utilizes Guaranteed Investment Contracts (GICS) and Bank Investment Contracts (BICS) and may also include other fixed income securities such as CDs.

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Money Market Fund — Manager: **PERS** — the objective of the fund is stability. This is a very conservative fund seeking maximum protection of principal in uncertain markets in U.S. Treasury securities maturing in one year or less.

Bond Fund — Manager: **PERS** — Interest income is the objective of this fund. This is a moderately conservative retirement vehicle which seeks to shield accumulated wealth from loss and receive higher than money market returns by investing in U.S. Treasury Bonds maturing in 10 years or less.

Which Investment Vehicle is right for you?

When considering any investment vehicle you should consider your own personal, unique needs, including time horizon, and flexibility. Each fund option listed utilizes a strategy to meet its overall objective. With this in mind, the fund objective that you feel best matches your long-term retirement plan may assist

in meeting your long-term savings goal. To start taking control of your financial future with the CalPERS Retirement System, please contact the PERS 457 Customer Service Line to obtain additional information at 800/260-0659.

RIDING OUT THE STORM

El Niño is no reason to jump ship. The past several months have seen a series of high and low stock market volleys. Take heart, historically the stock market has soared to new highs after disappointing lows. By investing systematically and regularly, through your payroll deductions, referred to as dollar cost averaging, you can hedge against market fluctuations. This allows larger fund purchases on the downside and smaller purchases on the upside. Most experts agree that this contribution method helps minimize the effect of short-term market volatility.



457 TRUST REQUIREMENT SAFEGUARDS PARTICIPANTS' ASSETS

The 1996 Small Business Job Protection Act introduced several changes to the Internal Revenue Code that impact deferred compensation plans now and in the future. One of the most important provisions of the Act for participants is the requirement that the assets held in all existing state and local government 457 plans be held in trust for the exclusive benefit of program participants. This provision means that 457 program assets are no longer considered to be the exclusive property of the employer — and are no longer subject to the claims of the employer's creditors in the event of an employer's insolvency.

The law gives existing 457 plans until January 1, 1999, to comply with this requirement. Your CalPERS 457 Program is pleased to assure you that the PERS Board of Administration already acts as fiduciary and trustee of the CalPERS 457 Program. In this capacity, the PERS Board provides oversight and places the participants' assets in trust in compliance with the 1996 Small Business Job Protection Act — well ahead of the mandated deadline. The PERS Board also oversees the CalPERS \$130 billion pension fund - the largest pension fund in the United States.

PIN SPIN

Virtually every electronic device — phone cards, pagers, voice mail, automatic teller machines, etc. — requires an individual access number for enhanced security, and it can be a challenge to keep them all straight. It's easy to request a reminder of your CalPERS 457 Program personal identification number (PIN).

Call the Customer Service Line at 800/260-0659. After you enter your Social Security number, you will be prompted to enter your PIN or press number one for a PIN reminder. After you press number one, you will receive a written PIN reminder at your address of record.

COME CHECK US OUT ...

Visit our website in the Benefits Program section at the CalPERS home page (<http://www.calpers.ca.gov>) and let us know what you think.

The foregoing newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact their legal, tax, or investment advisers.

Investment Glossary

A **mutual fund company** makes investments for individuals and institutions that have similar financial goals. An investment in a mutual fund is not a direct investment in stocks or bonds — it's a vehicle for making these investments. Mutual funds pool the contributions of thousands of shareholders. The mutual fund manager invests these assets in a variety of stocks, bonds, or other securities. When you invest in a mutual fund, you become a shareholder and, in effect, own units or shares in the fund's portfolio.

Load funds charge a sales fee — that's the "load." **No-load funds** do not charge an up-front sales charge, leaving you with more money to invest.

No-load/no-fee funds do not charge transaction fees when transferring money between no-load/no-fee funds. **12b-1 Fees** represent the maximum annual charge deducted from fund assets to pay for distribution and marketing costs. 12b-1 Fees are not applicable to PERS funds.

Broker/dealer is the commonly used term for brokerage firms operating both as brokers and as principals/dealers.

The term **volatility** refers to a characteristic of an investment or a market to rise or fall sharply in price within a short-term period.

The CalPERS Program offers several investment fund options to assist in planning your retirement future. You are free to select from among the following in whatever mix you feel best meets your needs: